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Managing government borrowing

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Summary

Government is borrowing substantial amounts of money, the scale of which has changed markedly over the last 20 years. Since 2003, the Debt Management Office's (DMO's) borrowing, which the Treasury instructs it to carry out, has increased from less than £50 billion a year to more than £230 billion in 2023. Over the same period the value of the DMO's entire borrowing portfolio (the total amount of government bonds or 'gilts' sold to investors that have not yet reached maturity) has ballooned from £300 billion to £2.5 trillion, putting the taxpayers on the hook for more debt repayments and interest costs. However, it is impossible to know whether government is securing value for money from its borrowing as the Treasury's debt management objective is not directly measurable.

Borrowing typically peaks during times of crisis, most notably during the COVID-19 pandemic where the government borrowed over £500 billion in a single financial year (2020–21). The DMO and National Savings and Investments (NS&I), who borrow on behalf of government, faced unprecedented challenges during this time, often being required to raise record amounts. Nevertheless, they managed to successfully raise the money needed to keep government functioning. External factors have helped government borrow such large sums of money such as the Bank of England's quantitative easing (QE) programme under which it bought substantial numbers of gilts.[1] However, the Bank of England is now unwinding its QE programme, meaning it is selling gilts at the same time as the DMO, creating unprecedented challenges.

In addition to the vast borrowing levels, the DMO and NS&I face several difficult operational challenges. NS&I is taking steps to address the problems it faced during the pandemic and dealing with the levels of demand through its modernisation programme, known as the Rainbow Programme. NS&I currently outsources its entire back-office and customer-facing operations to a single service provider called Atos. The Rainbow Programme will see NS&I move from a single outsource provider to a multi-provider model. However, this programme is already significantly delayed. The DMO is preparing to recruit a new CEO for the first time in over 20 years, and other senior members of staff are nearing retirement. It will be essential that it undertakes the succession planning needed to avoid any problems during this transition and ensure it has the required skills and experience in place.

1 Under QE, the Bank of England (under the instruction of its Monetary Policy Committee) purchased gilts via a newly created subsidiary called the Asset Purchase Facility (APF), in order to loosen monetary policy because the interest rate it sets (the Bank Rate) was already near zero per cent.

Introduction

Government borrows when its spending exceeds its income, which has been the case in all but five of the last 53 years. Borrowing allows government to continue to deliver important public services when tax receipts fall, or spending requirements increase. Government needs to pay interest on the money it borrows, and government's overall debt increases when it borrows more than it repays. Public sector net debt excluding the Bank of England (PSND ex BoE) is government's preferred measure for reporting on public finances. PSND ex BoE, which is the amount by which total government spending exceeds its total receipts, excluding assets and liabilities held by the Bank of England, was an estimated £2,251 billion at the end of 2022–23, equivalent to 86.1% of the UK's gross domestic product (GDP). Interest payments on this debt totalled an estimated £112 billion. The government's debt stock is forecast to continue rising through to 2028–29.

The Treasury is responsible for the government's fiscal and debt management policy, and for delivering the government's overall debt management objective which is "to minimise, over the long term, the costs of meeting the government's financing needs, taking into account risk, while ensuring that debt management policy is consistent with the aims of monetary policy". Ministers make judgements about taxation, spending and the total amount of borrowing required. Government borrows by issuing bonds, known as gilts, through the UK Debt Management Office (DMO) to large investors in the capital markets, or by encouraging savers to invest in National Savings & Investment (NS&I) retail products such as Premium Bonds. In 2023–24, the DMO was tasked with raising £232.3 billion, while NS&I was required to raise £7.5 billion. The Treasury's Debt and Reserves Management (DRM) team is responsible for stress-testing and challenging any analysis the DMO and NS&I provides during the preparation of the annual borrowing requirement known as the "remit". The Office for Budget Responsibility (OBR), which is independent of government, examines and reports on the sustainability of the public finances, in addition to forecasting the government's borrowing needs.

Since 2009, the Bank of England's quantitative easing (QE) programme has acted as a guaranteed buyer of government gilts, purchasing just under £900 billion, thereby indirectly helping the DMO sell the gilts it needed. However, QE is now unwinding, meaning for the first time the DMO will be selling gilts at the same time as the Bank of England. With interest rates having risen to levels not seen since 2008, the government is forecast to make a £126 billion loss on the QE programme, further increasing the government's borrowing needs. These higher interest rates, together with inflation-linked debt, lead to higher debt interest payments for government, which risks eroding government choices for public spending.

Conclusions and recommendations

1. **The Treasury is not able to fully monitor performance in meeting its debt management objective owing to a lack of quantifiable measures.** This objective is high-level and difficult to quantify because costs and risks need to be assessed over varying timeframes – for example, some gilts last for 50 years. This objective is therefore not directly measurable. The Treasury also does not have a set of more measurable success criteria or indicators to quantify its performance against the debt management objective. The Treasury recognises that there is no single quantitative metric to measure its performance and instead relies on more qualitative measures, such as monitoring market demand. But this means it is impossible to know whether it is securing value for money from its approach. Meanwhile, the Treasury no longer holds NS&I accountable against one of its core performance metrics, known as the 'Value Indicator', with a replacement yet to be introduced. The Treasury has committed to identifying how other equivalent organisations measure their performance and will assess whether the metrics currently in place can be improved.

   Recommendation 1: ***The Treasury, together with the DMO and NS&I, should set out, as part of the Treasury Minute response, how they plan to improve performance measurement against the debt management objective, including their analysis of international approaches and possible new metrics that could be introduced.***

2. **We are concerned that the Treasury, DMO and NS&I will not have the necessary skills, experience, and institutional knowledge needed to overcome the challenges they face now, and in the years to come.** The DMO and NS&I are both specialist organisations, with distinctly different skills sets and experience to those normally found in the Treasury. The Treasury faces challenges in maintaining the appropriate expertise in its debt management functions to be able to adequately scrutinise and challenge the work of the DMO and NS&I, which can be affected by staff turnover levels. The DMO is entering a period of transition with the current CEO due to retire at the end of June 2024 after being in post for over 20 years. This role has a long and steep learning curve and benefits from having deep, specialist knowledge which can only be developed over time. The Treasury has started the process of finding a replacement but needs to ensure a successor is willing to be in post long enough to develop this expertise. The DMO's small executive team has other key members nearing retirement, highlighting the need for a clear succession plan. The Treasury asserts that NS&I has been upskilling and increasing the size of its workforce to reduce reliance on contractors and make it a better IT customer as it delivers its Rainbow Programme. NS&I currently outsources its entire back-office and customer-facing operations to a single service provider and the Rainbow Programme, which is already significantly delayed owing to a poorly executed procurement process, will see it move to a multiple service provider model.

   Recommendation 2: ***The Treasury should set out, as part of the Treasury Minute response, its overarching plan for building and retaining skills and experience, which should include, but not limited to, the following:***

   - ***How NS&I is upskilling its workforce to deliver its Rainbow Programme;***

- ***Details of the DMO's succession planning, in particular an assessment of the merits of a minimum term or equivalent for the new CEO; and***

- ***How the Treasury builds and retains institutional knowledge.***

3. **The Treasury and the DMO lack the information needed to better identify unlawful activity and understand the risks posed by overseas investors, potentially reducing the value for money from future gilt sales.** In May 2023, the Competition and Markets Authority (CMA) provisionally found that, between 2009 and 2013, five major banks unlawfully shared competitively sensitive information, potentially impacting the DMO's gilt auctions. Collusion is illegal and while it is not the DMO's responsibility to police the behaviours of auction participants, it needs to put measures in place so it can monitor and minimise harmful behaviour, including the collection of information that could help unearth unlawful activity in a timely manner. The current measures, such as blind bids, might not be sufficient given the alleged unlawful activity took place nearly 15 years ago and was not identified at the time, with the DMO apparently unaware some of its auctions may have been manipulated. Similarly, the Treasury and the DMO hold limited information on the ultimate owners of UK debt held by overseas investors, which makes up around 25% of UK debt – the second highest in the G7. There is a lack of consensus on the potential risk this creates. For example, the Office for Budget Responsibility (OBR) see overseas holders of UK gilts as more sensitive to market movements compared to domestic investors as they prioritise higher returns over longer-term investments. Meanwhile, the DMO considers foreign investors to be an important part of its diverse investor base.

   Recommendation 3A: ***The Treasury, together with the DMO, should write to us, within two months of the conclusion of the CMA's investigation, outlining what steps they will take to address the information gaps around identifying potentially unlawful activity, including:***

   - ***The changes the Treasury will make to its gilt selling process in response to the CMA's investigation;***

   - ***Undertaking a formal review of the DMO's gilt selling process to identify any additional changes that could further limit the possibility of collusion, including the information it collects to help monitor unlawful activity; and***

   Recommendation 3B: ***The Treasury should, as part of its Treasury Minute response, set out its assessment of how increasing foreign ownership is affecting the stability of the UK gilt market, and the steps the Treasury and the DMO can take to gain more information on the foreign holders of UK debt.***

4. **We are concerned that significant problems with NS&I's procurement of its Rainbow Programme could leave limited flexibility or room for further delays.** During the COVID-19 pandemic, the Treasury required NS&I to raise £35 billion from retail savers – more than three times the previous year's requirement. While unable to deliver this, NS&I managed to raise a record £23.8 billion. One of the challenges NS&I faced during the pandemic was its inability to scale up its customer facing operations owing to its reliance on a single service provider, Atos. NS&I is undertaking a modernisation programme, which it calls its Rainbow

Programme, to move away from Atos to a multi-provider model. This project is already significantly delayed owing to bidders for one of the contracts submitting proposals that did not meet NS&I's requirements. The Atos contract, due to expire in 2024, has been extended to March 2025 as a result. Following a lesson-learned exercise, NS&I redesigned the procurement process for this contract and eventually secured a successful bid in December 2023. NS&I aim to complete the Rainbow Programme in 2024–25 but this remains a complex project since the three winning bidders developed their plans in isolation, and they now need to be integrated. NS&I asserts that it can extend the Atos contract for an additional 12 months, which may not be enough contingency should NS&I experience further delays.

Recommendation 4: ***NS&I should set out, as part of its Treasury Minute response, the following:***

- ***A list of the key project milestone between now and the Rainbow Programme launch date (thereafter NS&I should provide 6 monthly progress updates against these milestones);***
- ***The expected costs of extending the Atos contract beyond March 2025 and the contingency plans should Atos not wish to extend contract; and***
- ***Details on how it will avoid further delays to Rainbow Programme.***

5. **We are not convinced that the Treasury, DMO and NS&I have adequately captured the lessons learned during the financial crisis and pandemic to prepare them to deal with the challenges to come.** Government borrowed vast amounts during both the financial crisis that began in 2007, and the COVID-19 pandemic. The DMO raised £486 billion during the pandemic, triple its original financing requirement for 2020–21. Borrowing such large amounts created significant challenges for Treasury, the DMO and NS&I and they assert that they have learned important lessons from these experiences. NS&I was unable to deliver its remit during the pandemic, raising £23.8 billion against a target of £35 billion, but it is seeking to address some of the underlying causes through Rainbow Programme which will provide more scalability and resilience through better digital processes. The DMO did deliver its financing remit with help from the Bank of England's quantitative easing (QE) programme, which acted as a guaranteed buyer of government debt (albeit not directly). In the future, quantitative easing may not necessarily be available to support the DMO in raising such vast amounts of money for government. The DMO now needs to address some of the legacy issues created from the large-scale borrowing during the pandemic. This includes repaying the huge number of gilts in the years to come, peaking in 2024–25 with the DMO needing to repay £140 billion of gilts on behalf of government alongside raising large sums of money as part of the annual borrowing process. How the DMO responds to these challenges will aid future decision making during the next crisis.

Recommendation 5: ***The Treasury, DMO and NS&I should set out, as part of the Treasury Minute response, the lessons they have identified and learned from the financial crisis and pandemic, including the process whereby these lessons are captured and the changes that have been made to the borrowing process because of these lessons.***

1 Performance measure and information limitations

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HM Treasury (the Treasury), the Debt Management Office (DMO), National Savings & Investments (NS&I) and the Office for Budget Responsibility (OBR) on the management of government borrowing.[2]

2. Government borrows when it spends more than it raises. When government borrows more than it repays, total debt increases. Government needs to pay interest on the money it borrows. Public sector net debt excluding the Bank of England (PSND ex BoE) is the government's preferred measure for reporting on the public finances.[3] Since the National Audit Office's (NAO) report, the OBR has published data which shows that PSND ex BoE was an estimated £2,251 billion at the end of 2022–23. This is equivalent to 86.1% of the UK's gross domestic product (GDP). Interest payments on this debt totalled an estimated £112 billion in the same year. The government's total debt is forecast to continue rising through to 2028–29.[4]

3. Government borrowing takes place within a legislative and policy framework. The Treasury is responsible for government's fiscal policy, and for delivering the overall debt management objective. The DMO and NS&I are the Treasury's agents for implementing the debt management policy. The DMO borrows on government's behalf through the sale of bonds or 'gilts' to wholesale investors, such as financial institutions. NS&I borrows on behalf of government from retail investors through products such as Premium Bonds. Drawing on the OBR's independent forecasts, the Treasury decides each year on the total amount of borrowing required and set the DMO and NS&I each an annual borrowing target called a 'remit'. In 2023–24, the DMO was tasked with raising £232.3 billion, while NS&I was required to raise £7.5 billion.[5]

Performance measurement

4. The Treasury's debt management objective is "to minimise, over the long term, the costs of meeting the government's financing needs, taking into account risk, while ensuring that debt management policy is consistent with the aims of monetary policy".[6] When asked how success against this objective is defined, the Treasury told us that there was no single metric to measure performance. It added that measuring performance against a single metric would be "unfair" as the DMO is a "price taker", with the market determining the price of the gilts the DMO sells. Instead, the Treasury told us it considered a "whole set of metrics" such as gilt yields (the return an investor achieves from a gilt, taking into account the price paid and interest received) and risk premia (the additional return investors demand as compensation for taking on more risk compared to a less risky asset). The Treasury told us it also looked at the extent to which government debt was being sold in the "right areas". For example, it explained that the DMO sold gilts which were linked to inflation (called index-linked gilts), meaning that when inflation rises, so

2 C&AG's Report, Managing government borrowing, Session 2022–23, HC 1658, 5 July 2023
3 Office for Budget Responsibility, Public finances databank – November 2023, 22 November 2023
4 C&AG's Report, paras 1.8, 1.11
5 C&AG's Report, paras 2, 2.2, 2.13 & 2.14
6 C&AG's Report, para 1.5

does the cost of servicing that borrowing (the total amount of cash government needs to pay all the interest costs as well as repaying the original amount borrowed). The Treasury explained that in 2018, it reduced the number of inflation-linked gilts sold because of government's growing exposure to changing rates of inflation.[7]

5. The DMO told us that meeting the debt management objective is about both cost and risk minimisation, both of which need to be assessed over the long-term as some gilts can last 50 years. The DMO added that the long-term nature of the objective meant that it must make "certain trade-offs and judgements" when deciding which gilts to sell, when and over what length of time. As an example, the DMO explained that if cost minimisation was the only priority, it would sell entirely short-dated gilts—those gilts with a maturity of up to 7 years—to meet its borrowing remit. However, in reality, the DMO explained that it needed to sell gilts across a range of maturities as this helped develop a "deep, liquid, well-functioning bond market". It added that this was "even more important" than meeting the debt management objective as it allowed the DMO to access funding for government whenever it was needed, across all maturity ranges and in all market conditions. It explained that this approach had allowed the DMO to deliver its remit, plus or minus around 1%, in each of the past 20 years.[8]

6. To deliver its remit, NS&I must balance the interests of savers by offering a fair return, and the interests of the taxpayer by minimising finance costs. At the same time, it must also maintain an appropriate competitive position in the retail savings market. When questioned on how it minimises the cost of meeting its financing needs, NS&I told us it had several metrics to measure its performance, including its "efficiency ratio" which is the cost of NS&I managing the savings it holds. It told us that this was currently under "7p per £100 of investment".[9] NS&I explained that it also used a "Value Indicator" which compared the cost of borrowing through NS&I with the cost of selling gilts. NS&I told us that it measured, monitored and used the Value Indicator in all its decision making, but that the Treasury no longer held it accountable against this metric as the price of gilts is outside of NS&I's control. The Treasury and NS&I have considered other metrics to replace the Value Indicator but have not yet identified a suitable alternative.[10]

7. In light of the government's debt management objective being high-level and the lack of measurable success criteria or indicators to assess whether the objective was being met, the NAO recommended that the Treasury should consider ways to align and extend how it measured progress against the objective.[11] In response to the NAO's recommendation, the Treasury told us that it had committed to looking at how equivalent organisations measure their borrowing performance and whether the existing metrics the Treasury use "have any gaps". The Treasury told us that its aim was to have a "better overview of performance".[12]

7 Qq 32, 36; C&AG's Report, para 2.6
8 Q 35; C&AG Report, para 2.13
9 Q 34; C&AG's Report para 3.24
10 Q 34; C&AG Report, para 2.17
11 C&AG's Report, para 21
12 Q 36

Lack of information

8. In May 2023, the Competition and Markets Authority (CMA) provisionally found that five major banks broke competition laws on UK gilts. Each bank allegedly unlawfully shared competitively sensitive information relating to the buying and selling of UK government gilts. The alleged behaviour, which was identified by the CMA and potentially impacted the DMO's gilt auctions, took place at varying times between 2009 and 2013. We asked the DMO how it ensured that buyers were not co-operating behind the scenes to manipulate its auctions and thereby disadvantage taxpayers. The DMO, which sells gilts directly to its primary dealers via bids it receives during auctions, explained that all its primary dealers, known as Gilt-edged Money Makers (GEMMs), were regulated organisations and manipulation and collusion was "illegal and against the law".[13]

9. The DMO stressed that it expected all GEMMs to "adhere 100%" to all regulations and the applicable laws, but because the DMO is not itself a regulator it cannot police the behaviour of the GEMMs. It added that GEMMs, which the DMO appointed, have "exclusive bidding rights at auctions" and it only sold directly to the GEMMs. The DMO explained that the way it designed how and when it sold gilts, together with the auction process, "deliberately minimises the chance of manipulation or collusion." This included holding auctions during times when the market is most active, making it more difficult for a single player to start manipulating auctions. The DMO stated that during an auction, GEMMs "submit their bids blindly" meaning bidders are "in direct competition with each other".[14] Despite these steps, the DMO accepted that it could not categorically say that manipulation or collusion has "never happened in the past or that it might not happen in the future". When asked what changes it was making to its processes in light of the CMA's investigation, the DMO told us it was "not obvious" that there was a fundamental flaw in the system and therefore no changes have actually been made.[15]

10. We asked the OBR whether any improvements could be made to government's borrowing processes. The OBR expressed a desire for more information on the owners of UK gilts held overseas, which it said represented arounds 25% of all UK debt – the second highest in the G7. It explained that foreign investors were "more fickle and more flighty than domestic investors" because they were less committed to holding UK gilts over the long-term.[16] The OBR told us that compared to domestic investors, such as UK pension funds, foreign investors were more interested in "rates of return" and were more likely to switch to German or Japanese government bonds should the attractiveness of UK gilts fall. The OBR said that having a better understanding of the owners of UK debt held overseas would be advantageous from a "risk management perspective" because government will have a better sense of how sensitive these investors are to market changes.[17]

11. We asked the Treasury how much it knew about the owners of UK debt held overseas. The Treasury recognised that it did not have a "very accurate picture" because gilts were a "traded commodity" and may be sold on. The DMO explained that it cannot know who the ultimate beneficial owner of any gilt is unless it is explicitly told because gilts can be sold multiple times to different investors. The DMO also disagreed with the OBR's view

13 Q 71
14 Qq 41, 71
15 Qq 71, 73
16 Qq 5, 17
17 Qq 17, 18

that overseas investors were the most volatile element of the investor base. The DMO told us that over the last 20 years, sterling had become much more of a “reserve currency”, accounting for around 5% to 6% of global reserves. It explained that this suggested that overseas central banks and other international organisations, such as life insurance companies, were more likely to hold UK gilts over the long-term. The DMO added that until recently, domestic pensions funds were always seen as the “ultimate buy-and-hold” part of the investor base. However, in the aftermath of the gilt market’s reaction to the government’s September 2022 Growth Plan announcement (also known as the “mini-budget”), the DMO told us that domestic pension funds arguably became the “more volatile portion of the investor base”. The DMO stressed that foreign investors were an important part of having a “diverse investor base” and their involvement in the UK gilt market “acts as a safety valve”, giving the DMO access to a wider range of investors.[18]

18 Qq 74–75

2 Lessons learned and wider challenges

Borrowing during the pandemic

12. Government borrowed vast amounts during both the financial crisis and the COVID-19 pandemic. The Treasury, on behalf of government, required the DMO to raise £486 billion during the pandemic, triple the original remit for 2020–21, while NS&I had a record target of £35 billion, revised upwards from £6 billion. The DMO met its remit, raising £486 billion from gilt sales while NS&I raised £23.8 billion which was below its remit target but higher than its previous peak of £18.2 billion in 2014–15. The DMO successfully raised the amount requested by government at a time when the Bank of England was operating its quantitative easing (QE) programme. The Bank of England initiated the QE programme in 2009 with the aim of lowering interest rates, encouraging spending in the economy and meeting the Monetary Policy Committee's (MPC's) inflation target. To do this, the Bank of England, through a specially created subsidiary called the Asset Purchase Facility (APF), bought large volumes of government gilts, not directly from the DMO but rather from investors in the secondary market. The DMO sells gilts directly to its primary dealers, known as Gilt-Edged Market Makers (GEMMs), who hold these gilts before selling them in the secondary market. At its peak, at the end of December 2021, the Bank of England held £894 billion in government gilts.[19]

13. In November 2022, the Bank of England started to actively unwind its QE programme, a process also known as quantitative tightening, meaning for the first time it was selling gilts at the same time as the DMO. In the 12 months from September 2022, the Bank of England reduced the number of UK government gilts held as part of the QE programme by £80 billion.[20] In September 2023, the Bank of England announced a further £100 billion reduction in the 12 months to September 2024. This will take place alongside the DMO needing to sell £232.3 billion of gilts as part of its 2023–24 remit.[21]

14. We asked the DMO what risks quantitative tightening will create for government borrowing. The DMO told us that in 2023–24, the net supply of gilts was "at a historical high", which was a challenge for the market in terms of absorbing the higher supply and establishing the "right price".[22] The Treasury added that quantitative tightening increased the supply of gilts, which pushed down prices, so increasing yields and interest rates (there is an inverse relationship between gilt prices and yields).[23] The DMO explained that the main challenge it faced was to make sure its operations continued as "effectively as possible". It told us that this required on-going communication with the Bank of England "very explicitly" about co-ordinating gilt sales to ensure similar gilts were not being sold simultaneously.[24] We asked whether there would be any direct competition between the DMO and the Bank of England when selling gilts. The DMO told us that it tried to avoid this, but it would be difficult to rule it out in the future depending on how much the Bank of England might choose to sell. The DMO added that it has first mover advantage because

19 C&AG's Report, paras 2.5, 2.8, 2.13–14, 3.14 and 3.17
20 C&AG Report, para 3.18
21 HM Treasury, Autumn Statement 2023, November 2023
22 Q 47
23 Q 43
24 Q 47

it designed its annual auction calendar first, before sharing and discussing with the Bank of England. The OBR told us that there had "not been a lot of disruption in terms of the volume and stability of the gilt markets" as a result of quantitative tightening.[25]

15. The Treasury indemnifies the activities of the Bank of England's Asset Purchase Facility. This means that the Treasury receives any profits from QE but is also liable for any losses. The OBR told us that until very recently, QE was making "quite considerable profit" for the Treasury – and that between 2009 and 2022, the Treasury received cumulative gains of £124 billion. The Treasury told us that this changed from May 2022, when the Bank of England started raising interest rates, causing the Treasury to so far cover costs of £38 billion. The OBR estimated that over the lifetime of QE and quantitative tightening, the government will incur a net loss of £126 billion. When asked what impact this lifetime loss had on departmental spending, the OBR said that it affects government's objective for getting "debt under control".[26]

16. Not only does the government face growing pressure to borrow more in the future, but it also needs to ensure it can repay its current debts. The DMO issues gilts of varying length, ranging from one to more than 50 years. The period between a gilt being first issued and when the amount borrowed must be repaid to the original investor is called the redemption or maturity date. The NAO's report highlighted that government gilt redemptions will peak in 2024–25, with £140 billion of gilts maturing.[27] The DMO told us that some of the very short-dated gilts issued in 2020–21 during the pandemic were now starting to mature. The DMO also told us that the peak redemptions in 2024–25 will create a challenge for its "cash management function" in terms of needing to make sure that on any given redemption date, sufficient funds are available to repay the gilts. Close to a redemption, the DMO explained it will typically schedule an auction, thereby repaying maturing gilts by selling new ones. The DMO added that while the UK had a large number of redemptions to manage in the years to come, the amount was "much less" than some other major European countries.[28]

17. We asked the Treasury about the impact of the announcement of the government's September 2022 Growth Plan (or "mini-budget") on the cost of government borrowing. The Treasury explained that in the aftermath of the mini-budget, it required the DMO to raise an additional £72 billion. It added that markets were "under a period of stress" and yields were higher in the UK compared to other countries.[29] We asked the Treasury if there was more that could be done to ensure that ministerial announcements that might cause concern in the markets do not negatively impact markets and public finances in the future. The Treasury told us that "it is widely deemed to be the case" that very large fiscal events should not go ahead without being accompanied by an OBR forecast to put them into context, except in extreme circumstances. The Treasury added that it had updated its memorandum of understanding with the OBR to ensure that, in the event of any update to the DMO's remit, the OBR would provide assurance over the government's cash needs, known as the net cash requirement, even outside of regular fiscal events such as a Budget.[30]

25 Qq 15, 48
26 Qq 9, 11, 45; C&AG's Report, para 3.14
27 C&AG's Report, para 2.7, Figure 11
28 Qq 49, 51, 53
29 Qq 55–56
30 Q 57

NS&I's Rainbow Programme

18. In 2020–21, during the pandemic, the Treasury required NS&I to raise £35 billion from retail savers, which was nearly a sixfold increase in its original remit for that year. Since 2003–04, NS&I has only raised more than £15 billion on one occasion, which was in 2014–15 when it raised £18.2 billion. To deliver its remit, NS&I told us it must balance the interests of savers by offering a fair return, the interests of the taxpayer by minimising finance costs, whilst also maintaining stability of the wider financial market place. NS&I was unable to meet its £35 billion remit, instead raising £23.8 billion – which was nonetheless a record amount. We asked NS&I what it would do differently in the event of a future crisis. NS&I told us that it had learned "many valuable lessons" from the pandemic, some of which will be resolved as part of its Rainbow Programme.[31] NS&I currently outsources its entire back-office and customer-facing operations to a single service provider called Atos. Under the Rainbow Programme NS&I will instead outsource to multiple providers. NS&I explained that one of the key lessons from the pandemic that the Rainbow Programme will resolve was to provide "far more scalability and resilience".[32] It added that during the pandemic it received large inflows of deposits from savers, which created "pinch points" as the old, single provider model was dependent on "people, paper and physical locations".[33] NS&I explained that the new model will provide greater 'scalability' through better use of digital processes such as mobile apps with much more "functionality and flexibility".[34]

19. However, the Rainbow Programme is already behind schedule. NS&I's contract with Atos was due to expire in 2024, but delays to the Rainbow Programme resulted in NS&I extending the contract until April 2025. We asked NS&I about the reasons for this delay. In response, NS&I explained that one particular procurement process, which related to finding a company to provide the "digital experience" component of the Rainbow Programme (one element of the multiple provider model) was the main cause of the delay. It added that while the procurement process generated "good competition" with multiple bidders of the "right type of quality", all the bids submitted were "non-compliant" and did not meet NS&I's requirements. NS&I described this as "highly unusual" and that it had carried out a lessons learned exercise to understand why this happened. NS&I told us it had subsequently changed the procurement process, including giving bidders more flexibility around the project's security requirements.[35]

20. NS&I told us it had now successfully completed all the procurement stages and secured all the suppliers for the Rainbow Programme, meaning it was moving into the delivery phase. Despite meeting this milestone, NS&I still described the Rainbow Programme as a "big, complex programme" with many moving parts and challenges. NS&I explained that the three successful suppliers had developed their plans in isolation, meaning there was currently only a "loose plan" for the Rainbow Programme. NS&I added that it was going through a process of creating an "integrated plan" with the three suppliers.[36] We questioned NS&I on the revised timeline for the Rainbow Programme and whether there are contingency plans for any further delays. NS&I told us it expected the Rainbow

31 Qq 65, 68; C&AG's Report para 2.14, Figure 7
32 Qq 68–69; C&AG's Report para 3.25
33 Q 69
34 Qq 70, 88
35 Q 82; C&AG's Report, para 3.25
36 Qq 85–86, 90

Programme to be delivered in 2024–25, but should there be any further delays the Atos contract can be extended beyond the current extension by a further 12 months to April 2025.[37]

Skills, experience and institutional knowledge

21. Government borrowing is a complex process, requiring substantial experience and judgement.[38] The DMO explained that it was set up as a "specialist organisation" with staff that have very specific skills which are "not normally found in the Treasury". It added that the DMO is a "repository of specialist skills" available for the Treasury to use.[39] The Treasury told us that its Debt and Reserves Management team (DRM) acted as the "gatekeeper" for both the DMO and NS&I. It explained that the DRM worked with the DMO and NS&I to discuss and agree their remits at the start of the year, particularly the DMO in terms of how best to structure what gilts it needs to sell, when, and over what length of time. It also explained that the DRM was responsible for stress-testing and challenging any analysis the DMO and NS&I provided when developing their remits, as well as monitoring their performance both during and at the end of the year.[40] The NAO report identified that the Treasury faced challenges around maintaining expertise in its debt management functions, which can be affected by staff turnover levels.[41]

22. The DMO is entering a period of transition, with the current Chief Executive Officer (CEO) due to retire at the end of June 2024 after being in post for over 20 years. We noted that an advert had been placed for the role, and asked the Treasury what the timeframe was for appointing a successor. The Treasury told us it had started the process of finding a successor with the aim of having them in post with enough time to allow for a "sensible transition".[42] We asked the DMO what the minimum term should be for the new CEO to ensure they understand the role and create confidence in the market. The DMO told us that the new CEO should ideally be in post for "long periods" because the learning curve for the role is steep. It explained that this was because the DMO is a specialist agency and it takes time to develop the "specialisms, skills and experience" that it relies on when making important judgements, such as understanding how government policy making works and developing key relationships.[43] We asked the DMO what impact the CEO leaving will have on its small executive team, which has other key members nearing retirement. The DMO explained that the CEO leaving now will mean that the rest of the executive team will be around a little longer to help pass on "institutional memory" and "foster talent and growth" further down the organisation.[44]

23. We asked NS&I whether it was working collaboratively with other parts of government to overcome some of the issues being faced on its Rainbow Programme. NS&I told us that it was receiving support from the Cabinet Office on "various complex transactions". The Treasury added that it was "upskilling" and increasing the size of the NS&I workforce "quite considerably". The Treasury explained that it aimed to reduce NS&I's reliance on

37 Q 86
38 C&AG's Report, para 3.22
39 Q 81
40 Q 78; C&AG's Report, para 2.3
41 C&AG's Report, para 3.22
42 Qq 29, 31; HM Treasury and UK Debt Management Office, News story – Chief Executive Officer of the DMO to retire next year, 28 September 2023
43 Q 30
44 Q 92

consultants and the increased costs and short-termism this creates, but also to ensure that NS&I is a "much better IT customer" as it moves from a single to a multiple provider operating model under the Rainbow Programme.[45]

45 Qq 90–91

Formal minutes

Monday 19 February 2024

Members present

Dame Meg Hillier, in the Chair

Olivia Blake

Sir Geoffrey Clifton-Brown

Gareth Davies

Mr Jonathan Djanogly

Peter Grant

Ben Lake

Sarah Olney

Sarah Owen

Ms Marie Rimmer

Gary Sambrook

Declaration of interests

The following declarations of interest relating to the inquiry were made:

7 December 2023

Peter Grant declared the following interest: That he has savings at National Savings and Investments (NS&I).

Managing government borrowing

Draft Report (*Managing government borrowing*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 23 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Fifteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available (Standing Order No. 134).

Adjournment

Adjourned till Wednesday 21 February at 1.00 p.m.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Thursday 7 December 2023

Richard Hughes, Chair, Office for Budget Responsibility Q1–28

James Bowler CB, Permanent Secretary, HM Treasury; **Sir Robert Stheeman**, Chief Executive, Debt Management Office; **Dax Harkins**, Chief Executive, National Savings and Investments Q29–96

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

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4th	The Department for Work & Pensions Annual Report and Accounts 2022–23	HC 290
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6th	Competition in public procurement	HC 385
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9th	Whole of Government Accounts 2020–21	HC 65
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18th	Excess Votes 2022–23	HC 589

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22nd	Tackling local air quality breaches	HC 37
23rd	Measuring and reporting public sector greenhouse gas emissions	HC 39
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33rd	HMRC performance in 2021–22	HC 686
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35th	Introducing Integrated Care Systems	HC 47
36th	The Defence digital strategy	HC 727
37th	Support for vulnerable adolescents	HC 730
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